

presents emerging issues and ideas that call for action or rethinking by managers, administrators, and policy makers in organizations

Lessons from Experience: A New Look at Performance Management Systems

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Executive Summary

The concept of performance appraisal has changed over the years. Performance has been usually equated with annual appraisals which measure the entire year’s effort of an employee in terms of numbers. This paper points out the flaws in this system and suggests its replacement with the Performance Management Systems (PMS), offering a set of changes to make PMS more effective.

Drawing from his own experiences of designing Integrated HRD systems for various companies, the author stresses upon the importance of understanding the nature, potential, and complexities of performance management systems (PMS). Evaluating an employee’s performance on the basis of numbers assigned by another appraiser without an awareness of the context in which the ratings are assigned could inflict serious injustice to the performer. The outlook has to shift from an annual exercise to the on-going activities. Appraisal focuses on ratings while improvements focus on work, stakeholders, service levels, productivity, motivation effort and all such performance-related variables.

Following changes are suggested in order to improve PMS as a system:

- Change from ‘Appraisal’ to ‘Management’ and focus on “Contributions and Improvement”
- Recognize the comprehensiveness of PMS as a system
- Recognize the complexities of the multi-dimensional PMS
- Allocate adequate time and legislate the same and if required plan it into the company calendar
- Take HR managers out of PMS, decentralize and shift PMS to Performance Managers developed from line jobs
- Make PMS a part of the budgeting process and integrate with other systems of the company
- Create a new Index—“Performance Index”—for each employee and make it quarterly and annual
- Use technology to support your work
- Implement PMS rigorously and give it the seriousness it deserves.

A questionnaire survey on a number of managers from three organizations: an MNC, a family-owned business, and a professionally managed company from abroad clearly indicated the potential use of PMS for performance enhancements and a similarity in the implementation of PMS in all these organizations.

The author discusses how these insights helped him in designing the programme, popularly known as “Invest Twenty and Direct 2,000 to 20,000 TM.” The line managers and top management are being told that their managers can learn to direct 2,000 hours of their performance time to 20,000 hours of their junior’s performance time by merely investing 20 hours of their time for planning their own and their juniors’ work. PMS can be a great tool if designed comprehensively and implemented in all earnestness, the author affirms.

KEY WORDS

Performance Appraisal

Performance Management Systems

Annual Performance Index

Work Planning

Competency Utilization

Workplace Learning

Over the last two decades, a lot of development has taken place in the concept of performance appraisal across the world. There has been a realization that performance appraisals are going to be subjective no matter how much we try to make them objective. This is because the appraisers are always varied in their standards, judgments, information assimilation, and processing abilities with respect to their appraisees, and many other parameters. However, performance is too important a matter to be equated with annual appraisals. Annual appraisals and ratings reduce the entire year's effort of an individual officer to a number and the numbers are assigned by their appraisers keeping in context the work and performance of the individual officer. The numbers are used by some higher level authorities without an awareness of the context in which the ratings are assigned. Thereafter the ratings lose the person and deal with numbers. This is where serious injustice gets inflicted on the performers. Performance appraisals have to be looked at differently. It is not enough to change the name. It is equally important to understand the nature, potential, and complexities of performance management systems (PMS). CEOs need to be properly guided and line managers need to be assessed on how much time and effort they put in for performance management and improvements. The outlook has to shift from annual exercise to performance improvements through effective performance of on-going tasks and activities. One way may be to scrap performance appraisals altogether and focus on performance improvements and move from KPAs to activities. This paper suggests a number of changes required to make PMS more effective.

PERFORMANCE APPRAISALS 30 YEARS AGO

It is about thirty three years ago in 1974 that Larsen and Toubro had asked the two of us from the Indian Institute of Management, Ahmedabad (IIMA)—Dr. Udai Pareek and the author of this paper—to examine their performance appraisal system. We interviewed several managers at different levels. Mr. A M Naik, the Current Chairman of L&T was one of those whom we interviewed to ask for suggestions for bringing about improvements in the system. L&T managers gave us a number of suggestions which later turned out to be the base for us to design an Integrated HRD System for L&T. A few years later, we got associated with the State Bank of India, Bharat Earth Movers Ltd., Crompton Greaves,

TVS Group, Murugappa Group, Bajaj Auto, L&T ECC, Steel Authority of India, LIC of India, GIC, Canara Bank, Bank of Baroda, and a number of other organizations and reviewed and redesigned their systems on similar lines with a development focus.

When I look back at my experiences during the last thirty three years, I realize that we, in India, are still struggling with effective implementation of appraisal systems. The issue comes up again and again as in the recent past, “performance-linked pay” or “variable pay,” and “performance incentives” have come under focus. The following are some of the suggestions I would like to make on the basis of this experience:

- Change from “Appraisal” to “Management” and focus on “Contributions and Improvement”
- Recognize the comprehensiveness of PMS as a system
- Recognize the complexities of the multi-dimensional PMS
- Allocate adequate time and legislate the same and if required plan it into the company calendar
- Take HR managers out of PMS, develop and employ a new category of managers called the “Performance Managers,” preferably from line jobs
- Decentralize PMS and make it a responsibility of line managers
- Make PMS a part of the budgeting process and integrate it with other systems of the company
- Create a new Index—“Performance Index”—for each employee and make it quarterly and annual
- Use technology to support your work
- Implement PMS rigorously and give it the seriousness it deserves.

These recommendations are explained below with reasoning:

Change from “Appraisal” to “Management” and Focus on “Contributions and Improvement”

One of the most significant mistakes we have made is in titling the performance appraisal system. We have continued to use the term, “Performance Appraisal.” After serious reflection on this issue, I have come to the conclusion that it is high time we abandon the term, “Performance Appraisal.”

One may ask what is there in the name? This is what I kept asking and hence did not push for change for sev-

eral years. I now realize that there is a lot in the name. The term, "appraisal" suggests that the main purpose of the system is "appraisal" or evaluation. It amounts to reducing the entire year's or six months' work of an individual into a number. Indeed, numbers do have some great properties. They are intended to render the so-called objectivity and comparability. Unfortunately, it is this comparability and objectivity that has played havoc in the lives of many employees. It has caused a few people to get promoted, some of them undeservingly, a few others to leave their jobs, and yet a few others to walk into office every day with low interest and satisfaction and carry on with their jobs.

No two numbers are comparable in appraisals. The numbers in performance appraisals do not follow any rules except the rules of the nominal scales¹. Howsoever the firm may try to promote objectivity, it should be recognized that the numbers assigned by each appraiser at best follow "ordinal scales." We cannot say with confidence that a rating of four assigned on a five-point scale by a Production Chief is indicative of the same performance level as a rating of four assigned to the juniors by the Marketing Chief or for that matter two Marketing Chiefs operating in two regions. The ratings depend on so many factors: the supervisor or the rater, his previous background, his personality, expectations, the performer (assessee) and his own background, the way the goals are set, the level of the goals, expectations of the assessor from the performer, the culture of the organization, etc. No two numbers are comparable. We cannot say that a person who gets a 68 rating on a 100 point system is definitely superior to another who gets a rat-

ing of 64, and specially if the 64 is from a setting where the performer had a lot of odds to face (including perhaps that of his supervisor himself?). Yet we treat them as sacred and use them to fit into normal probability, add, subtract, multiply, and calculate incentives, etc. I think this is a fundamentally wrong attempt to fit qualities into quantities and use them for anything beyond a discussion or analysis.

From a reflection on this and various other experiences in my work on performance appraisals, I would like to suggest the following:

- Ratings in appraisals are notional and should therefore be used for discussion to integrate performance on a number of non-additive parameters (like adding for a regional sales executive his achievement of sales targets, and the percentage increase in customer base, with how well he has developed his juniors, and how much he followed the various systems). *They cannot and should not be used to force a fit into the normal curve blindly or determine incentives mathematically.* They could at best be used for discussion and review of performance. Ratings are poison but they may be the inevitable by-products of the performance process. They should not become the primary pre-occupation of appraisals.
- Performance should be assessed against expectations which could be changed during the course of performance with the availability of new information, data, and the challenges. Expectation sharing and reviewing are the two most important aspects of performance management.
- It is high time we drop the term, "appraisal" and instead use the term, "management." Management is broader and encompasses many things for a system. It includes planning, development, improvements, recognitions, etc. Those who prefer to be even more focused can use terms like: PMS (Performance Management Systems), PDS (Performance Development System), PIP (Performance Improvement Programme), etc. (see Appendix 1 for a comparison between PAS and PMS as cited in Rao, 2004)
- Merely changing the title does not help; it is the spirit that needs to be promoted. It can be done by having a new look at the potential of PMS and by using PMS for objectives other than appraisals and generating numbers in percentages, etc.
- Good performance should be rewarded. But, first, it

¹ In the principles of measurement, four types of scales are used. The most primitive form of measurement is by naming something that exists, e.g., the number plate of a car, or the house number, roll number, passport number, etc. They are only indicative of the existence of something and identification of the same by a name. Ordinal scales follow the principle of the order or sequencing. While rank one is better than rank two, it does not indicate how much better. They represent the sequence or order. They do not follow any other principles. The numbers cannot be subject to addition or subtraction. The third is a little more sophisticated form of measurement called as 'interval scales.' Here the difference between any two consecutive numbers is the same as the difference between any other two consecutive numbers. For example, the difference between 3 feet and 4 feet is the same as the difference between 36 feet and 37 feet (one foot) or the difference between 8 kg and 9 kg is the same as the difference between 97 kg and 98 kg (one kg). They can be added, subtracted, and multiplied. The fourth is 'ratio scales' which follow sophisticated rules and is used in higher level physics. There is no absolute zero in them and they are subject to sophisticated rules, e.g., temperature. Zero temperature means freezing point.

is important for each individual to understand at the outset what a good performance is and have a shared understanding of what is a rewardable performance and what is not by both the performer and his superiors. This understanding should develop at the very beginning of the performance period and not at the time of deciding the rewards.

- Small rewards and recognitions should be encouraged and each supervisor should have a good degree of autonomy to recognize and reward the performance of his or her performing employees and this may constitute a significant part of the CTC (say, 5% to 10%) of the juniors. Recognition should take place all through the performance period and should not be limited to the annual stock-taking or performance reviews.
- Annual reviews of performance should be conducted using innovative methods and should become a part of life. Such reviews need not necessarily result in assigning numbers to individuals.

This is not a complete list of thoughts but a mere glimpse of the way we need to think.

I would now like to explain the basis of this thinking by a simple illustration of how we have been promoting a new way of looking at performance planning and goal-setting.

Invest Twenty and Direct 2000 to 20,000 Programme:

Recently, I was working on the PMS for a company outside India. I was asked to help them implement a new system that they had just designed. It was an infrastructure company with many General Managers (GMs) and Senior GMs at the helm. I asked 25 of them attending the workshop to answer the following four questions:

- To what extent have you clearly set your work plan for the last six months?

- To what extent did your seniors with whom you work shared the same understanding of your work plan and priorities in the last six months?
- To what extent are you able to put to use most of your capabilities in the last six months?
- To what extent are you clear about the work plan and priorities for the next six months?

They were asked to use the following scale: 100% = Fully, 75% = Mostly, 50% = Somewhat, 25% = A little, 0% = Not at all. Their responses are presented in Table 1.

Responses to Question 1 in Table 1 reveals that the average percentage of the extent to which there is clearly set work plan for the top management of this company is 74 per cent. If we consider unplanned work as a wastage, it is about 26 per cent in this company. If the CTC of all the 25 top level managers is about US \$ 5 million (with an average CTC of US \$ 2,00,000 per GM, their total CTC is US \$ 5 million or approximately Rs. 20 crore), there is a wastage of US\$ 1.3 million (or Rs. 6.2 crore) of cost to the company due to unplanned work, and the opportunity cost may be much more. Such unplanned work gets passed down the hierarchy and multiplies. Hence the solution is to reduce this wastage by planning work. PMS can therefore be a good tool to reduce wastage through proper performance planning.

Responses further revealed that 71 per cent of the seniors shared the same understanding of work plan and priorities as that of the performers. This is indicative of interpersonal competence, role clarity, focused work, good interpersonal competence and mutual support, and a number of other positive outcomes. If PMS is effective, this shared understanding can be improved.

The average of the extent to which capabilities of GMs are perceived as being used in the last six months was 68 per cent, thus implying a 32 per cent wastage of tal-

Table 1: Responses of 25 General Managers (Top Management Team) to Performance-related Questions

Questions	Number of Participants Responding (N = 25)				
	100%	75%	50%	25%	0%
1. To what extent have you clearly set your work plan for the last six months?	3	18	4	0	0
2. To what extent did your seniors with whom you work shared the same understanding of your work plan and priorities in the last six months?	7	10	5	3	0
3. To what extent are you able to put to use most of your capabilities in the last six months?	2	15	7	1	0
4. To what extent are you clear about the work plan and priorities for the next six months?	9	13	3	0	0

ent. The responses further indicate on an average an 80 per cent clarity existing in work plans and priorities, thus suggesting a 20 per cent potential wastage of top management time.

Simple questions and analyses like these have brought to focus the need for a better utilization of talent through planned work and a shared understanding of the work. A good PMS can reduce the wastage of time and talent, and ensure a better utilization of human resources. The scope for the same is indicated by the answers provided by a number of managers from three organizations: an MNC (N=28), a family-owned business (N=41), and a professionally managed company from abroad (N=85) (Appendix 2A and 2B) .

The results indicate a similarity in the situation. All these organizations sought improvements in their PMS. The Appendix also indicates that HR managers who are supposed to promote implementation of PMS are no exception to poor implementation of PMS. These results clearly indicate the potential use of PMS for performance enhancements and also the similarity in the implementation of PMS in MNCs, family-owned businesses, and professionally run companies in India and abroad.

It is these insights that have helped us design the programme at TVRLS, now known as "Invest Twenty and Direct 2,000 to 20,000™." I have been propagating it by communicating to line managers and top management that their managers can learn to direct 2,000 hours of their performance time to 20,000 hours of their juniors' performance time by merely investing 20 hours of their time for planning their own and their juniors' work. That is what "Invest 20 and Direct 2,000 to 20,000" implies. We have helped many senior managers to calculate the cost of the value of their time and showed benefits of such planning. Executives can be demonstrated to affect savings in their own time and get a better ROI on their time investments. In other words, organizational performance and resource utilization, including talent utilization which is becoming expensive day by day, go up and cost reductions are effected with better planning.

Similarly, we have demonstrated that by viewing Performance Review Discussions (PRD) as opportunities for seniors to learn from their juniors, we have changed the meaning of 'coaching' and 'mentoring.' PRD and coaching sessions are meant to develop coaches as much as

the performers. In fact, I now take the view that PMS is a learning opportunity.

Recognize the Comprehensiveness of PMS as a System

Performance management systems can have multiple objectives. These include:

- Implementing continuous performance improvements among each of the employees
- Developing a discipline of planning work and managing one's time and talent
- Ensuring role clarity
- Recognizing strengths and areas needing performance enhancements and identifying the development needs for the same
- Building competence among individuals, teams, and the organization as a whole
- Preparing database for rewards, promotions, recognition, and motivation
- Developing insights into self as high self-awareness is essential for better leadership and managerial effectiveness
- Developing mutuality and respect for each other among each senior-junior or boss-subordinate pair
- Developing problem solving capabilities among employees
- Inculcating a learning culture
- Enabling seniors to learn from juniors and vice versa
- Providing mentoring and coaching support to employees and effecting performance improvements
- Preparing employees for competition and continuous change
- Arriving at an objective assessment of performance by each employee and generating data about employees for various HR decisions like rewards, rotation, recognition, higher responsibilities, etc.
- Integrating and aligning the work of individuals and their teams with the organizational goals and tasks.

These are not mutually exclusive objectives and could be overlapping. However, organizations have often tended to emphasize the non-essentials and stress on the short term rather than the long term, very understandably. Often, in the objectives, there is an undue stress on objectivity and rewards as though employees work all the year round only for annual rewards and recognition. By linking PMS with rewards and recogni-

tion, most organizations have undervalued individual's interest in work and created new politics in organizations. In fact, sometimes PMS seems to create politics and de-motivation or the reverse of what it is intended to create. This happens by selectively rewarding a few and ignoring many and making the rewards once a year rather than continuous, and asking for power and authority away from the supervising line managers and concentrating it in the hands of a few including the HR Managers and the top management. This has done the biggest damage to the cause of a good PMS.

I have come to the conclusion that the most important objectives of the PMS should be:

To enable each individual employee to plan his/her work for the entire year (or a part of it as is possible in an organization), to ensure that he/she undertakes productive activities, utilizing his/her competencies in the best possible manner and contributing to the achievement of departmental or organizational goals and results, while at the same time constantly learning and developing one's own capabilities and enjoying work.

The most important aspects of this objective are as follows:

Work planning and accountability. If you plan your work you will be more accountable to your work. You are also likely to enjoy your work out of a sense of accomplishment. Work planning also ensures alignment with organizational goals as every individual plans his work in the context of organizational priorities.

Competency utilization. You are able to undertake work or at least give adequate opportunities for yourself to utilize your competencies.

Workplace learning. This becomes a tool of continuous learning and development. This is the greatest reward you can get from your work. When you learn and grow, your competencies get built and you enhance your own brand value. If you grow beyond your role and if the organization cannot accommodate, you can always find other opportunities.

Building mutuality, team work, work satisfaction or motivation, and self respect.

The process of implementing PMS may also ensure that the following additional objectives are met:

- Participative planning
- Periodic planning and review
- Periodic analysis of the performance blocks and opportunities
- Collective planning
- Collective ownership where required
- Promotion of competencies, values, and desired culture by making it a part of planning
- Participative review and learning from each other
- Mechanism of monitoring performance and implementation plans and ensuring organizational support.

Thus PMS can be a great tool if designed comprehensively and implemented in all earnestness. It should have little place for politics and manipulation.

Recognize the Complexities of the Multi-dimensional PMS

In the year 2002, the Corporate Leadership Council in USA attempted to quantify the impact of more than 100 performance management strategies on employee performance. This research uncovered vital information on the strategies that enhanced or diminished employee performance.

In a subsequent work on "*Benchmarking the High-Performance Organization*," the Corporate Leadership Council used the same sample of more than 19,000 employees and managers from 34 organizations across 7 industry groups and 29 countries. This study addressed the frequency and effectiveness with which performance management strategies are implemented in organizations today. The intention was to help members to locate "mismatches" between the amount of resources allocated to a given strategy and their return on employee performance. With unparalleled precision, members may then reallocate scarce resources—money and time—toward implementing those strategies that not only have the maximum impact on employee performance, but also are most likely to be ineffectively administered or absent. In this extensive study of the best practices on PMS, the Conference Board observed the following:

- Many performance management strategies that could improve employee performance by more than 25 per cent were underutilized or ineffectively administered in practice.

- Some organizations were significantly outperforming others in the use and implementation of several high-impact performance strategies.
- Eighty-three per cent of the employees recognized the importance of their day-to-day work to the success of their business unit and organization, and 59 per cent of the employees understood the connection between their projects and assignments and the organization's overall strategy. However, some organizations were significantly better than others at ensuring that their employees recognized this link.
- Overall, 57 per cent of the employees reported that they enjoyed their projects and assignments, and more than three-quarters of the employees recognized the importance of their projects for their personal development and long-term career.
- Only 10 per cent of all the employees received a full 360-degree formal performance review with three or more sources of feedback. Even in those companies that most frequently used 360-degree reviews, only about one-third of the employees received such a comprehensive review. Organizations had a sizeable opportunity to positively impact employees' performance by providing more than one source of feedback during performance reviews.
- On an average, about one-third of the employees reported that their managers voluntarily gave them informal feedback without their having to ask for it. Employees typically had to wait for more than a week after completing a project or assignment before receiving informal feedback.
- Only about one-third of the employees, on an average, received a written development plan during their most recent formal performance review.
- Only one-third of those employees who had a development plan, reported that their plans are challenging and applicable to their daily work.
- Nearly one-quarter of all the employees reported that their managers made fundamental changes in their projects and assignments at least once a week. Another quarter of the employees' managers made changes in their projects one to three times per month.
- Employees were skeptical about being rewarded for successful completion of their projects. Less than 40 per cent of the employees believed that if they performed well on their projects and assignments, they would be rewarded with a higher performance rating, merit increase, annual bonus, or a raise in the

base salary. And, only 16 per cent of the employees saw the link between strong performance on their projects and the likelihood of being promoted.

- Only 31 per cent of the employees in an average company reported that the training they received was effective.

On the basis of these studies on how organizations drive results through PMS, some conclusions were drawn by the Conference Board studies. According to them, organizations are changing the breadth and focus of their PMS approaches. The changes are:

- From managing system to managing performance
- Offering a clear business for managing performance
- Providing the tools the employees need to perform effectively
- Realizing that even the best intentioned managers cannot overcome subjectivity and/or focus on the immediate goals
- Leveraging collaborative goal-setting and team-based performance management
- Targeting on activities and individuals that will have great impact on financial performance.

They identified the five key imperatives for success of PMS as:

- establishing performance management as an organizational priority
- up-skilling managers at performance improvement
- expanding lines of performance accountability
- aligning with business drivers
- managing employee goal realization.

The five problems enlisted in PMS include:

Inadequate managerial focus- Many factors affect in devoting time and effort for PMS. (It is not uncommon in India for line managers to ask questions like "Should I keep performing or keep filling performance plans and appraisals formats?)

Insufficient managerial skills—To improve performance

Narrowly-defined ownership—Requires multiple owners for individual performance. No single individual can accomplish the entire task. Separating accountabilities has always been a problem.

Disconnect with strategy—Or inadequate linkage to business drivers

Failure to execute—Efficient execution across business units is lacking.

The findings of the Conference Board bring out clearly the complexities of the PMS. By nature, performance management is a complex process. It involves continuous dialogue, discussion, and debate of different levels: individuals, teams, and the entire organization. It cannot therefore be reduced to an annual exercise for which less than a few hours are devoted and yet great results are expected. The complexity of PMS comes from the complexity of defining performance itself. It is therefore important to recognize that no matter what we do, there will always be issues in performance management.

Allocate Adequate Time and Legislate and If Required Plan it into the Company Calendar

In most of my PMS programmes, I have been asking managers about how much time they spend on PMS. The usual responses are anywhere between 2 hours and 10 hours in a year. Rarely did I get answers above 10 hours a year. A large part of this time is spent on self-appraisal and identification of KPAs or KRAs for self or juniors.

On an average, every manager is expected to give about 2,000 to 2,400 hours of work annually. This is about 180 to 200 hours a month. In most of the metropolitan cities, on an average, a manager spends about two hours a day in commuting (home to office and back and for other meetings elsewhere). These amounts to about 400 to 500 hours or at least 20 per cent of his time and the time we spend in comparison on PMS is not even one per cent and is in fact often 0.5 per cent. What objectives can be achieved by these?

When I ask managers to think a little more and estimate the time they spend on departmental plans, budgets, reviews, and solving problems, the figures change. Some of them spend as much as 30 to 40 per cent of the time in managing the performance of their departments or units. All morning meetings of production are performance planning meetings. All problem solving meetings are performance management meetings. It is our inability to link our performance management with performance appraisals that causes the problem. When I point this out to managers in some of the organizations, they im-

mediately come up with the issue of how much of their time gets wasted in meetings. Unfortunately, the problem is that only once a year we focus on individual employees because of rewards and promotions and the rest of the year we forget that it is the individual who contributes. We do not focus adequately on the individual and as a result individuals sometimes get away without accountability.

What is the Way Out?

Recognize that individual performance management is as much of an imperative as that of the departmental performance and ensure that departmental budgets and plans are immediately followed by individual plans and performance contributions. Every individual should be required to plan his 2,000 or 2,400 hours of work annually, quarterly, or monthly. This should be done as an individual discipline and under the guidance of his seniors. This needs at least 5 per cent of their time to be devoted to such planning. This works out to be a day in a month or at least half a day in a month. This could be done by legislating every first day of the month as individual planning and review day. If organizations implement this plan, they will go a long way in making their performance improvements.

Take HR Managers out of PMS, Develop and Employ a New Category of Managers—“Performance Managers”—preferably from Line Jobs

Some time ago, I was asked to help a company to introduce a new system of PMS. When I was about to start the orientation workshop with the top management of the company, I was stopped by them for a few minutes with the following request:

“Sir, we have had three HR Managers in the last six years and every time a new HR Manager joins, he changes the performance appraisal system and brings in a new consultant. Every time the system changes, we are called for a workshop. We are tired of all this and now before you teach us anything, we request your interference in getting an assurance from our HR Chief that he will be here for the next few years until the system stabilizes. Unless we have an assurance, there is no point in having this workshop.”

The HR Chief promptly gave an assurance publicly. However, he left the company a year after, for better prospects. PMS is too serious a matter to be entrusted to

only a select few; it is actually the job of all line managers and supervisors.

Decentralize and Shift the Management of PMS to Line Managers, Unit Heads

PMS hitherto has been managed by the HR Managers. In many organizations, they derive their power out of such controls. They spend their time issuing forms, collecting forms, tabulating trends, normalizing data, convening committees to meet, announcing rewards, pacifying those who are not rewarded, communicating polices, etc. In other words, they spend most of the time trying to use and convince themselves and the line manager community about the objectivity of the top management decisions. This preoccupation of HR Managers in turn determines what issues the line managers get preoccupied with. Most HR Managers keep changing their PMS periodically and keep conducting orientation workshops, and immediately after these workshops are over, they suddenly become silent. Their lack of business orientation sometimes make them feel shy to reach out to the line managers and find out their difficulties.

This has gone on for too long. It is high time now that we get out of this vicious circle. I have been struggling for the last ten years trying to convince a large number of HR Managers of their need to:

- devote more time on coaching and mentoring line managers
- constantly be in touch with line managers to discuss with them and understand their difficulties and resolving them
- tabulate and analyse the company-wide shared difficulties, bring them to the notice of the top management, and find lasting solutions to the recurring problems and issues
- use new technologies that are now available like the e-PMS or IT-supported PMS to enhance upward communications, etc.

In most cases, the result has been very poor. Doing a good job in implementing PMS requires a different level of competency on the part of the HR facilitator. First and foremost, a business understanding, followed by empathy, credibility, and some OD or behavioural skills required by helping professionals. Unfortunately, most top level HR Managers either do not have the time for this or are ill-equipped in terms of the required skills and,

therefore, it has rarely worked. As a result, most line managers continue to be disappointed with their PMS and the role played by HR. The HR Department served mostly as a punching bag for the line managers.

It is high time now that the PMS is taken out of the HR Managers' hands and is given to the line managers. This means that the job of planning, reviewing, and improving performance should be transferred to the SBU Heads and the Heads of Departments (HODs) who would be responsible for PMS of the employees. This decentralization would involve decisions by the SBU Heads and the HoDs regarding the departmental budgets, including performance strategies, individual plans, reviews and rewards, and celebrations.

- They should have the scope to decide their own performance planning as long as they define the performance index of each individual employee and supply information to the centralized HRIS (Human Resources Information System).
- They will be encouraged to have their own structures of the individual PMS mechanism that suit their requirements. Corporate guidelines if any could be followed with substantial freedom.
- The performance monitoring and rewards as well as support requirements are all decentralized. In case of small organizations, such decentralization may mean freedom and autonomy to departmental heads as well as the responsibility to ensure that the employee performance is planned, aligned, recognized, and developed.

It is perhaps time to think of developing and appointing a new category of managers called the "Performance Managers." They could be line managers and be given a part-time or a full-time responsibility. They should be exclusively made available for performance management. Their single most important task should be to facilitate performance improvements at all levels (dyadic, team, and organizational levels). They could be trained in OD and such other skills. There is a need to experiment with more than one way of facilitating performance.

Make PMS a Part of the Budgeting Process and Integrate with Other Systems of the Company

Performance management should take place at several levels: Organizational, functional, departmental, team

or work group level, boss-subordinate team level, and individual level. The measures are different and yet integrated or aligned. For example, at the firm level, the measures are: annual turnover or income generated, profits made, enhancement in market value, asset base, product innovations, new products introduced, market share enhancements, patents filed, new markets touched, etc. At the functional level, each function such as finance, production or operations, projects, HR, quality assurance, sales and marketing, R&D, etc., has its own measure and are varied but they all contribute to the firm level outcomes. At a more operational level, each of the work teams has its own measurable targets well defined. All these are discussed, reviewed, decided, and monitored through the annual and quarterly budgeting process. However, the individual targets and measures of performance are separated out and are given as HR targets. These should actually become a formal part of the annual and quarterly budgeting process of the corporation and should be monitored and reviewed the same way as the individual performance and perhaps with more intensity. They are like the bricks on which the organizational performance is made. The dyadic performance (the performance of the boss-subordinate pair where exists) and team work are the cement with which the bricks are attached to yield a firm's performance. Most organizations seem to spend enormous time discussing the nature of the house and the walls they want to build but spend little time to discuss the nature of the bricks that they want to build on. It is therefore necessary to make the individual performance plans and performance management an integral part of the firm's budgeting process. Each individual should be required to complete the performance plans as a part of the budgeting process and should in fact be a part of the departmental budgeting process.

Use performance review discussions between the performers and their supervising managers as well as departmental reviews as learning tools and not mere performance monitoring tools.

Studies have indicated that managers and employees learn a lot more from each other and from the experiences they get on the job than from training programmes. A junior manager learns from his senior or reporting and reviewing officers. The Head of the Department gets to know a lot of things in his/her departmental reviews and meetings. Managers learn from their mentors. They

learn from their own and others' successes and failures. However, learning is complete only when it is analysed, reflected upon, and assimilated. An annual, half yearly, or a quarterly performance review discussion is a learning opportunity for learning from each other. The purpose of the PRDs should be redefined as learning and improving performance and enhancing one's impact rather than arriving at ratings and assessing performance. It is high time that senior managers and top management of corporations realize that "the higher they go the lonelier they get and the lonelier they are the less likely that they would learn from others." Hence they should use the quarterly PRDs as learning opportunities for educating themselves about the ground realities, the way their juniors are thinking, the way competition is working at the grassroot levels, the way consumer preferences are changing, the difficulties the juniors are facing, etc. It is a great opportunity to learn and in fact the only opportunity for them to learn from their juniors. The moment they understand this, they become great listeners in PRDs and are likely to end up managing their own and their juniors' and their team's performance better.

Create a New Index called "Performance Index" for Each Employee and Make It Quarterly and Annual

The Performance Index should be based on performance and potential and should include 360-degree feedback (feedback from juniors, internal customers, and external customers, etc., besides the boss). The Index should include weightage given to the time allocated for managing the performance of self and juniors, interpersonal competence (dyadic relations), team work, and other organizational contributions through one's initiative (contributions to intellectual capital and talent management). The index could be issued in the form of a certificate and converted into encashable points and used for recruitment and promotion purposes, etc.

Annual Performance Index (API) is an index of the annual performance of the individual employee. It should indicate the contributions to the departmental and organizational goal achievements through his individual activities and competencies. The composition of the index or components may vary from organization to organization and should be defined by each organization depending on its requirements and context. For example, this may include the results obtained by the indi-

vidual, his effort, competencies, contributions to team or department, values and culture of the organization. Results and effort in terms of KPAs, KRAs, etc., may be measured quarterly or monthly depending on the nature of the organization (e.g., IT companies may have a quarterly assessment or project-based assessments). Some of the components recommended to be included in the Annual Performance Index are given in Table 2.

Use Technology to Support your Work

Developments in information technology (IT) and communications have made life very simple. Now performance planning, review discussions, and assessments can all take place on-line. Using an in-house network or web-based support will go a long way to have conversations on performance planning and performance reviews.

Performance plans can be developed and reviewed on-line. Performance development needs can be identified and even met on-line. There are many on-line training packages that could be linked with the development needs. Such needs should be identified at the beginning

of the year along with performance plans rather than at the end of the year on the basis of performance reviews.

In the past, one of the reasons for most managers for not completing their performance plans on time has been the lack of finding a common time when the entire department or the seniors and juniors can meet together to plan, review, and discuss performance. Availability of IT and the changing nature of work due to technological improvements make implementation of PMS much easier by reducing the meeting time and perhaps the meeting need. Every employee can plan his work, get it checked, modified, and assessed on-line. The problems and difficulties can be presented and solved on-line using an IT-supported PMS.

The following is a recommended system of on-line performance management with IT support:

Step 1: The company formulates its annual plan and posts it on-line on the basis of a review of its last year's performance and business opportunities and aspirations for the subsequent year. Line managers could be invited

Table 2: Suggestive Components of Annual Performance Index for Each Individual

S. No	Component and Weightage Range	What is to be Included	Methodology and Components
1.	Individual performance: Results (20%)	Extent to which measurable targets have been achieved	<ul style="list-style-type: none"> Assess KRAs and output-related activities Use measures of performance in terms of financial, customer, internal systems and processes, and learning. Use Balanced Score Card measures. Assess quarterly and finalize annually, self-assessment and boss' assessment factored into.
2.	Individual performance: Effort (20%)	Level and quality of work effort put in by the individual	<ul style="list-style-type: none"> Nature of activities planned and carried out Way time was used and spent Process achieved Involvement in work initiative levels, self-assessment, and boss' assessment factored into.
3.	Individual performance: Competencies, culture and values (15%)	Talent utilization	<ul style="list-style-type: none"> Extent to which various competencies are used for effective performance Demonstrated competencies and qualities valued by the organization and that contribute to the intellectual capital formation.
4	Group performance (15%)	Achievement of measurable departmental goals	<ul style="list-style-type: none"> Assessment by top management of the departmental or team performance using results achieved on various parameters. Factor in the contributions of the individual.
5	Internal customer service (15%)	Internal customer assessments using 360-degree feedback	<ul style="list-style-type: none"> Use a simple assessment tool with relevant items dealing with internal customer support, problem solving, and contributions to their work. Assessment by internal customers.
6	Development of juniors (15%)	Time spent to develop juniors and manage their performance	<ul style="list-style-type: none"> Time spent on their PMS, motivation, and leadership building of juniors Use a simple assessment tool. Assessment by juniors

to offer their comments if any to enhance participation.

Step 2: Each department or work team plans its goals and results in alignment with the company goals and plans. This is done along with the departmental plans and budgeting exercises. This could be done through virtual meetings on line.

Step 3: Each individual plans his own work inputs and results in terms of KPAs, KRAs, activities, and time allocations and posts them on the net. This should be available for viewing by anyone in the company. Performance plans should encourage new benchmarks and learning from one another. For example, a Sales Manager working in Mumbai or London may learn from the activities of his counterparts (other Sales Managers) in Colombo or Singapore or Bangalore. They also should learn from the activities of their seniors and juniors. All this is possible with IT-aided PMS.

Step 4: The individual development needs should be identified and posted along with performance plans on the intranet to be accessed for intervention planning by the concerned agencies including the departmental head and the HR Department or the training centre.

Step 5: The performance plans are accessed and approved by the seniors and reporting officers on the net. The reading and approval may also take place at a time convenient to the appraiser as he carries the laptop and the net access with him all the time.

Step 6: The HR or the Training Department intimates the plans for training and development interventions to the concerned individuals and departments again on the net through appropriately designed IT packages and e-mails.

Step 7: A quarterly review of performance is conducted in relation to the performance plans and quarterly accomplishments by each individual performer and simultaneous assessment by the reporting officers. Assessments are to be made confidentially and revealed to the candidate only after both self-assessment and boss's assessment are complete. It should be so designed as to facilitate independent assessments and dialogue subsequently.

Step 8: Performance plans are modified and reviewed at the departmental and individual levels on the basis of the quarterly performance review of the firm, the de-

partment or team, and the individuals. The modifications could also be carried out on the net. The process could continue for quarters 2 and 3 as in Step 9.

Step 9: Annual individual performance review to be conducted after the departmental reviews and assessments are shared on-line, similar to the process in Step 7.

Step 10: Annual assessment of the internal customer service to be assessed on-line by a simple assessment tool. The on-line system should not take more than five to ten minutes per assessment. Assessments should be done by all internal customers individually and anonymously.

Step 11: Annual assessment of the performance of the individual manager to be conducted by all his next line juniors anonymously on parameters like time spent in developing them, support provided, effort put in to utilize their talent and develop them, etc.

Step 12: Annual performance index to be computed with IT assistance, possibly by developing appropriate programmes.

The revised Performance Management System in operation in Steel Authority of India is a good illustration of how to use IT effectively for PMS. In the SAIL system, the KPAs, activities, accomplishments, and difficulties are all recorded on-line and are available for all the concerned employees. It saves a lot of energy, time, and cost to the company. It encourages more participation and on-line discussions. The technology should be developed to suit the PMS philosophy and requirements rather than adapting PMS to suit the technological capabilities. Experiences of organizations like the SAIL in recent times have demonstrated how indigenously developed IT support can be of use in implementing a good PMS.

Implement PMS Rigorously and Give it the Seriousness it Deserves

The ownership of performance should lie squarely with each manager and cannot be delegated to another department or individual. It is the performer who has to make sure that he allocates sufficient time to plan, review, and develop his own performance followed by that of his juniors. The success of any PMS lies in its implementation. The CEOs and the top management need to give it its due importance. The moment it is recognized as synonymous with organizational perform-

ance management rather than mere assignment of ratings to individual employees, half the battle would be won.

CONCLUSION

In sum, it is high time we change our outlook to performance management systems (PMS). Though PMS is treated as a system it should be recognized that it is more than a system and it is in fact the reason for the very existence of employees and the organization. Reducing the entire year's work of an employee to a number is ignoring the potential of people in building organizations. Appraisal ratings are bound to be subjective; they should be treated with respect and kept at a distance. New mechanisms like the Annual Performance Index need to be explored to make such assessments more comprehensive and acceptable. Administrative overheads can be reduced and participation, trust, and trans-

parency can be enhanced by using IT support and other technological advancements. The time has come when PMS can be taken out of the hands of the HR Managers and given to the line managers, the ownership and seriousness can be shifted to line managers, and PMS can be integrated better with business and work. It is worthwhile to examine if a new role with skills in organization development and performance improvements can be created. It should not, however, be a full-time job, but only a part-time job so that no new power centres get developed. HR Managers can at best be used to facilitate the developmental needs by gathering and disseminating learning resources, learning interventions, and packages. They may have other strategic and important roles to perform like those outlined in *HRD Score Card 2500* (Rao, 2008) and in the *Future of HRD* elsewhere. ♡

Appendix 1: PAS and PMS: A Comparison (Rao, 2004)

The new language of performance appraisals uses the term performance management rather than appraisals. Appraisal is an annual affair while performance management is a year round affair. Appraisal focuses on ratings while improvements focus on the work, the stakeholders, service levels, productivity, motivation effort and all such performance related variables. The table below gives the differences between performance appraisals and performance management.

Table: Comparison Between PAS and PMS

Performance Appraisal Systems	Performance Management Systems
Focus is on performance appraisal and generation of ratings	<ul style="list-style-type: none"> • Focus is on performance management
Emphasis is on relative evaluation of individuals	<ul style="list-style-type: none"> • Emphasis is on performance improvements of individual officer and his departmental or team performance
Annual exercise - though normally periodic evaluations are made	<ul style="list-style-type: none"> • Continuous process with quarterly or periodic performance review discussions
Emphasis is on ratings and evaluation	<ul style="list-style-type: none"> • Emphasis is on performance planning, analysis, review, development and improvements
Rewards and recognition of good performance is an important component	<ul style="list-style-type: none"> • Performance rewarding may or may not be an integral part • Defining and setting performance standards is an integral part
Designed and monitored by the Personnel/ Administration Department	<ul style="list-style-type: none"> • Designed by the Personnel/HR Department but could be monitored by the respective departments themselves
Ownership is mostly with the Administration/Personnel Department	<ul style="list-style-type: none"> • Ownership is with line managers; Personnel/Administration facilitates its implementation
KPAs and KRAs are used for bringing in objectivity	<ul style="list-style-type: none"> • KPAs, or KRAs are used as planning mechanisms
Developmental needs are identified at the end of the year on the basis of the appraisal of competency gaps	<ul style="list-style-type: none"> • Developmental needs are identified in the beginning of the year on the basis of the competency requirements for the coming year
There are review mechanisms to ensure objectivity in ratings	<ul style="list-style-type: none"> • There are review mechanisms essentially to bring performance improvements
It is a system with deadlines, meetings, input and output, and a format	<ul style="list-style-type: none"> • It is a system with deadlines, meetings, input, output, and a format

Performance Appraisal Systems

Format-driven with emphasis on the process
Linked to promotions, rewards, training and development interventions, placements, etc.

Performance Management Systems

- Process driven with emphasis on the format as an aid
Linked to performance improvements and through them to other career decisions as and when necessary.

Thus the main difference between performance management and appraisal systems is their respective emphasis and spirit. Good organizations in the past have essentially used their performance appraisal systems as performance management systems. They might have used the traditional title. The title seems to mean a lot in communicating the appropriateness of the systems and its emphasis.

Appendix 2: Performance Management Data from Three Industries from India and Abroad

2A: Responses of Managers from Three Corporations to Performance-related Questions (A = Senior managers from a family-owned business conglomerate = 41; B= Middle and senior managers of a professionally managed company from the Gulf Region N= 85; C = Top management from an MNC in India N = 28)

Questions	Number of Participants Responding														
	100%			75%			50%			25%			0%		
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C
1. To what extent have you clearly set your work plan for the last six months?	7	11	4	20	59	14	14	10	10	0	5	0	0	0	0
2. To what extent did your seniors with whom you work shared the same understanding of your work plan and priorities in the last six months?	7	20	3	18	32	12	12	20	9	3	9	4	1	1	0
3. To what extent are you able to put to use most of your capabilities in the last six months?	6	11	5	19	39	16	13	28	6	3	5	0	0	0	1
4. To what extent are you clear about the work plan and priorities for the next six months?	11	26	1	18	38	18	10	16	9	2	3	0	0	0	0

2B: Wastage due to Lack of Proper Implementation of Performance Management Systems in Four* Different Organizations for Various Categories of Managers

	Senior and Middle Managers Professionally Managed (N = 85)	Family Business Senior Managers (N = 41)	Top Management of an MNC (N= 28)	HR Managers from Another Organization (N=17)
Unplanned work or time wasted due to lack of clarity	28% or 14 person years wasted due to unplanned work	29% or 14 person years unplanned work	30% or 15 person years unplanned work	27%
Lack of congruence in priorities of the boss and the performer	31%	34%	38%	32%
Unutilized competencies	33%	32%	29%	34%
Lack of clarity of priorities for the next six months	24%	27%	32%	21%

* Data from an additional organization on HRD managers have been added.

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Don't lower your expectations to meet your performance. Raise your level of performance to meet your expectations. Expect the best of yourself, and then do what is necessary to make it a reality

— **Ralph Marston**